

Message Text

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SUBJECT: PROPOSED KOREAN TARIFF REFORM

SUMMARY: THE MINISTRY OF FINANCE (MOF) HAS ANNOUNCED THAT THE ROKG WILL SUBMIT TO THE FORTHCOMING SESSION OF THE NATIONAL ASSEMBLY A PROPOSED REVISION OF CUSTOMS LAW FOR OVERALL TARIFF REFORM, REDUCING THE AVERAGE KOREAN TARIFF RATE FROM 36 PERCENT TO 25 PERCENT AND INCREASING THE NUMBER OF TARIFF CATEGORIES FROM 11 TO 15, EFFECTIVE JANUARY 1, 1979.

THE SPECIFIC STATED PURPOSES OF THE PROPOSED TARIFF REFORM ARE TO LIBERALIZE IMPORTS, TO STABILIZE DOMESTIC PRICES FOR DAILY NECESSITIES, TO MODERNIZE AND PROMOTE THE HEAVY AND CHEMICAL INDUSTRIES, TO RATIONALIZE LIGHT INDUSTRY, AND TO STRENGTHEN EXPORT EXPANSION. THE TARIFF REFORM INCLUDES ADOPTION OF A NEW SYSTEM OF VALUATION BASED ON THE DOMESTIC EQUILIBRIUM PRICE OF COMMODITY AND USE OF DIFFERENTIAL TARIFFS. PROPOSED ITEM BY ITEM CHANGES WILL NOT BE AVAILABLE UNTIL THE DRAFT CUSTOMS LAW IS PRESENTED TO THE NATIONAL ASSEMBLY. END SUMMARY.

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1. THE KOREAN GOVERNMENT HAS ANNOUNCED A DRAFT CUSTOMS LAW, INCLUDING OVERALL TARIFF REFORM, WHICH WILL BE SUBMITTED TO NATIONAL ASSEMBLY SESSION IN SEPTEMBER AND TO BECOME EFFECTIVE JANUARY 1, 1979. MOF OFFICIALS STATED THAT THE PRINCIPAL INTENTION OF THE REFORM IS TO ADJUST THE KOREAN ECONOMY TO THE INTERNATIONAL TRADING ENVIRONMENT. IN ANOTHER WORDS, THIS CHANGE IS TO

LEGALIZE KOREAN TRADE LIBERALIZATION POLICY PARTICULARLY FOR THE CURRENT NEGOTIATING ISSUES UNDER GATT/MTN DISCUSSION. UNDER THE NEW SYSTEM, THE AVERAGE TARIFF RATE WILL BE 25 PERCENT INSTEAD OF THE 36 PERCENT PREVIOUS AVERAGE RATE. MOF OFFICIAL EMPHASIZED THAT THE AVERAGE TARIFF RATE OF 25 PERCENT IS FAR LOWER THAN THE AVERAGE TARIFF RATE OF TAIWAN.

2. NEWLY ADOPTED TARIFF SYSTEM OF VALUATION, BASED ON A DOMESTIC EQUILIBRIUM PRICE OF A COMMODITY, INCLUDES: (1) A SLIDING TARIFF SYSTEM, WHICH WILL REDUCE THE TARIFF BURDEN WHEN THE PRICES OF IMPORTED GOODS BECOME MUCH HIGHER THAN DOMESTIC PRICES IN ORDER TO MAINTAIN DOMESTIC PRICE STABILITY (2) A SEASONAL TARIFF SYSTEM WHICH WILL IMPOSE DIFFERENTIAL TARIFFS ON ITEMS SHOWING SUBSTANTIAL SEASONAL FLUCTUATIONS; (3) A TARIFF QUOTA SYSTEM WHICH WILL ACCESS LOWER TARIFFS TO THE ITEMS IMPORTED IN TIME TO ALLEVIATE DOMESTIC SHORTAGES. ANOTHER NEW SYSTEM OF DIFFERENTIAL TARIFFS IS BEING ESTABLISHED TO PROTECT THE DOMESTIC INDUSTRIES FROM INTERNATIONAL PRICE COMPETITION, WHERE EXTREMELY LOW PRICES FOR IMPORTED GOODS COMPARES WITH DOMESTIC PRICES.

3. UNDER THE NEW TARIFF REFORM THE COMPOSITION OF TARIFFS HAS BEEN RECLASSIFIED INTO 2,211 ITEMS AS COMPARED TO THE 2,521 ITEMS CONTAINED IN THE OLD SCHEDULE. RATE CATEGORIES, HOWEVER, HAVE BEEN INCREASED FROM 11 TO 15. ACCORDINGLY, UNCLASSIFIED

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THE NUMBER OF ITEMS SUBJECT TO PROHIBITIVE TARIFF RATES RANGING FROM 80 PERCENT TO 150 PERCENT WILL BE DRASTICALLY REDUCED TO 26 FROM 285, ITEMS WITH 40 PERCENT TO 60 PERCENT TARIFF REQUIREMENTS WILL BE DECREASED FROM 703 TO 411, AND THOSE WITH 20 PERCENT TO 30 PERCENT TARIFF REQUIREMENTS FROM 1,447 TO 980. THOSE IN THE CATEGORY OF LESS THAN 20 PERCENT TARIFF RATE WILL BE INCREASED TO 787 FROM 69. IT IS NOTABLE THAT THE NUMBER OF ITEMS SUBJECT TO THE HIGHEST TARIFF RATE OF 150 PERCENT WILL BE REDUCED TO SEVEN ITEMS FROM SEVENTEEN ITEMS. SMALL PASSENGER CARS, WHISKY AND CIGARETTES WILL STILL REMAIN IN THE SEVEN ITEMS.

4. THE REACTION TO THE PROPOSED TARIFF CHANGES HAS BEEN HIGHLY COMMENDED BY VARIOUS ECONOMIC ORGANIZATIONS, INDUSTRIES, AND ECONOMIC AND BUSINESS PROFESSORS. MOF OFFICIAL SAID THAT THE TASK FORCE OF THE TARIFF REFORM INCLUDED MANY ECONOMISTS FROM VARIOUS FIELDS AND REFLECTED THEIR RECOMMENDATIONS.

5. THERE IS NO MATERIAL AVAILABLE AT THIS TIME TO IDENTIFY THE ITEMS FOR WHICH RATES HAVE BEEN CHANGED WITH THE EXCEPTION OF SOME SELECTIVE EXAMPLES. HOWEVER, EMBASSY HAS VERIFIED THE CONTENTS OF MAJOR CHANGES DESCRIBED ABOVE WITH MOF.

DETAILS WILL BE FORWEARDED BY AIRGRAM AS SOON AS THE LIST
OF ITEM BY ITEM CHANGES BECOME AVAILABLE.
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